

# **Fairfield University**

**Financial Statements**

**At and for the years ended**

**June 30, 2012 and 2011**

**Fairfield University**  
**Financial Statements**  
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To the Board of Trustees of  
Fairfield University

In our opinion, the accompanying changes in net assets and cash flows for the years ended 2012 and 2011 of Fairfield University (the "University") are fairly presented in the financial statements prepared in accordance with the accounting principles generally accepted in the United States of America. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the standards generally accepted in the United States of America. In order to obtain reasonable assurance about whether the financial statements are free of material misstatement, our audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The results of our audits are summarized in our audit report.

**Fairfield University**  
**Statements of Financial Position**  
**June 30, 2012 and 2011**

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|                                                                                                                 | <b>2012</b>   | <b>2011</b>   |
|-----------------------------------------------------------------------------------------------------------------|---------------|---------------|
| <b>Assets</b>                                                                                                   |               |               |
| Cash and cash equivalents                                                                                       | \$ 29,289,073 | \$ 20,832,349 |
| Deposits with trustees                                                                                          | 21,977,337    | 37,176,455    |
| Student accounts receivable, less allowance for doubtful collections of \$624,900 in 2012 and \$552,018 in 2011 | 291,989       | 252,278       |
| Student loans, less allowance for doubtful collections of \$300,000 in 2012 and in 2011                         | 2,364,269     | 2,358,074     |
| Contributions receivable, net                                                                                   | 13,505,542    | 6,558,267     |

The accompanying notes are an integral part of these financial statements.



**Fairfield University**  
**Statement of Activities**  
**Year Ended June 30, 2011**

|                                                     | Unrestricted   | Temporarily<br>Restricted | Permanently<br>Restricted | 2011<br>Total  |
|-----------------------------------------------------|----------------|---------------------------|---------------------------|----------------|
| <b>Operating revenues</b>                           |                |                           |                           |                |
| Educational and general                             |                |                           |                           |                |
| Tuition and fees                                    | \$ 164,875,955 | \$ -                      | \$ -                      | \$ 164,875,955 |
| Less: Student financial aid                         | (50,971,627)   | -                         | -                         | (50,971,627)   |
| Net tuition and fees                                | 113,904,328    | -                         | -                         | 113,904,328    |
| Government grants and financial aid                 | 2,216,776      | 3,483,636                 | -                         | 5,700,412      |
| Contributions                                       | 4,382,586      | 4,863,523                 | -                         | 9,246,109      |
| Investment return designated for current operations | 5,393,451      | 6,055,589                 | -                         | 11,449,040     |
| Departmental and other revenues                     | 4,938,788      | -                         | -                         | 4,938,788      |
| Net assets released from restrictions               | 13,928,935     | (13,928,935)              | -                         | -              |
| Total educational and general                       | 144,764,864    | 473,813                   | -                         | 145,238,677    |
| Auxiliary services                                  | 31,223,034     | -                         | -                         | 31,223,034     |
| Total operating revenues                            | 175,987,898    | 473,813                   | -                         | 176,461,711    |
| <b>Operating expenses</b>                           |                |                           |                           |                |
| Educational and general services                    |                |                           |                           |                |
| Instruction                                         | 58,405,259     | -                         | -                         | 58,405,259     |
| Research                                            | 6,746,574      | -                         | -                         | 6,746,574      |
| Public service                                      | 1,821,867      | -                         | -                         | 1,821,867      |
| Academic support                                    | 18,898,001     | -                         | -                         | 18,898,001     |
| Institutional support                               | 31,686,842     | -                         | -                         | 31,686,842     |
| Student services                                    | 26,508,243     | -                         | -                         | 26,508,243     |
| Total educational and general services              | 144,066,786    | -                         | -                         | 144,066,786    |
| Auxiliary services                                  | 29,372,323     | -                         | -                         | 29,372,323     |
| Total operating expenses                            | 173,439,109    | -                         | -                         | 173,439,109    |
| Increase in net assets from operations              | 2,548,789      | 473,813                   | -                         | 3,022,602      |
| <b>Nonoperating activities</b>                      |                |                           |                           |                |
| Contributions for nonoperating purposes             | 572,875        | 5,137,093                 | 3,886,823                 | 9,596,791      |

The accompanying notes are an integral part of these financial statements.

**Fairfield University**  
**Statements of Cash Flows**  
**Years Ended June 30, 2012 and 2011**

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|                                             | 2012        | 2011    |
|---------------------------------------------|-------------|---------|
| <b>Cash flows from operating activities</b> |             |         |
| Increase (decrease) in net assets           | (534,326.7) | 7,481.1 |

The accompanying notes are an integral part of these financial statements.





**Fairfield University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

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***Investment Income (Loss)***

Dividends, interest and net gains (losses) on investments are reported as follows:

# **Fairfield University**

## **Notes to Financial Statements**

### **June 30, 2012 and 2011**

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values that would have been used had a ready market for the investments existed. Unrealized gains or losses are determined by comparison of cost to fair value at the beginning and end of the reporting period. Purchases and sales of securities are reflected on a trade-date basis. Gains or losses on sales of securities are based on average cost.

#### **Tuition and Fees**

The University recognizes revenues from student tuition and fees predominantly within the fiscal year in which the academic term is conducted. Therefore, student advance payments for tuition, room and board are deferred and then recorded as unrestricted revenues when earned.

#### **Land, Buildings and Equipment, Net**

Land, buildings and equipment, net is stated at cost less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings (40-60 years) and equipment and library books (3-7 years). Depreciation expense is \$14,880,326 and \$12,964,795 for the years ended June 30, 2012 and 2011, respectively. The University recognized \$(36,566) and \$223,350 of expenses relating to the accretion of liabilities associated with the retirement of long-lived assets, for the years ended June 30, 2012 and 2011, respectively. Conditional asset retirement obligations included in accrued liabilities are \$2,743,695 and \$2,780,261 as of June 30, 2012 and 2011, respectively.

#### **Fair Value Accounting**

The University records its applicable assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. "exit price") in an orderly transaction between market participants at the measurement date.

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three Levels of the fair value hierarchy under GAAP are as follows:

- Level 1      Inputs that reflect unadjusted quoted prices in active market for identical assets or liabilities that the University has the ability to access at the measurement date.
  
- Level 2      Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
  
- Level 3      Inputs that are unobservable.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's Level within the fair value hierarchy is based on the lowest Level of any input that is significant to the fair value measurement; however, the determination of what constitutes "observable" requires significant judgment. The University considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the



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**Notes to Financial Statements**  
**June 30, 2012 and 2011**

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***Corporate Stocks***

Corporate stocks include investments in actively traded equity securities which are listed on a national exchange are valued at the last price quoted by the exchange and are generally categorized as Level 1. The fair values of other equity securities are based upon market price quotations, and are generally categorized as Level 1.

***Fixed Income Securities***

Fixed income securities include investments in various U.S. treasury instruments, corporate debt, structured products (such as mortgage-backed securities and asset-backed securities, and bank debt). Fixed income securities values are estimated based upon market price quotations and are generally categorized as Level 2 because there is the ability to redeem at or near June 30, 2012.

***Private Equity and Other***

Private equity and other include equity positions in a variety of private equity funds with various strategies, private real estate funds that hold real property holdings, and direct investments in real estate funds through partnership interests. These securities (NAVs) are valued by the investment managers and such NAVs are recorded under GAAP utilizing the practical expedient. There are no active markets or significant observable data and are, therefore, categorized as Level 3.

***Equity Funds (Registered and Nonregistered)***

Equities in investment funds include mutual funds (registered under the Investors' 1940 Act) and hedge funds (nonregistered under the Investors' 1940 Act). Mutual funds are principally invested in exchange traded securities. These hedge funds are invested principally in exchange traded and over the counter securities. The University has opted to utilize the practical expedient for valuing hedge fund investments (NAVs). These investments are categorized as Level 2 because there is the ability to redeem at or near June 30, 2012.

***Bond Funds (Registered)***

Bonds in investment funds include mutual funds (registered under the Investors' 1940 Act). Mutual funds are principally invested in fixed income securities and trade in over the counter market. These securities (NAVs) are valued by the investment manager and such NAVs are recorded under GAAP utilizing the practical expedient. These investments are categorized as Level 2 because there is the ability to redeem at or near June 30, 2012.

***Hedge Fund of Funds***

Hedge fund of funds are nonregistered funds whereby the investment managers are investing in various underlying hedge funds that principally invest in exchange traded and over the counter securities. These securities (NAVs) are valued by the investment manager and such NAVs are recorded under GAAP utilizing the practical expedient. These investments are categorized as Level 3, because there is no ability to redeem at or near June 30, 2012.

***Multi Asset Strategy Funds***

Multi asset fund is an investment in a hedge fund (nonregistered under the Investors' 1940 Act) with a multi-strategy approach. These securities are valued by the investment manager and such NAVs are recorded under GAAP utilizing the practical expedient. This investment is categorized as Level 2 because there is the ability to redeem at or near June 30, 2012.

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In January 2010 FASB issued "Improving Disclosures about Fair Value Measurements", which was adopted by the University in fiscal 2011. This amends current fair value measurement GAAP to require additional disclosures. The guidance requires entities to disclose transfers of assets in and out of Levels 1 and 2 of the fair value hierarchy, and the reasons for those transfers. In addition, the guidance requires separate presentation of purchase and sales in the Level 3 asset reconciliation. The adoption of this guidance did not have a material impact on the University's financial statements in fiscal 2012.

**Donated Property and Land**

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**2. Contributions Receivable**

Contributions receivable at June 30, 2012 and 2011 are expected to be collected as follows:

|      | <b>2012</b> | <b>2011</b>  |
|------|-------------|--------------|
| 2012 | \$ -        | \$ 2,372,746 |
| 2013 | 3,126,652   | 2,406,220    |
| 2014 | 3,400,291   | 940,825      |

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The following table includes a roll forward of the amounts for the year ended June 30, 2012 for financial instruments classified with Level 3:

|                                  | Private Equity<br>and Other | Equities            | Hedge Fund<br>of Funds | Total                |
|----------------------------------|-----------------------------|---------------------|------------------------|----------------------|
| <b>Balances at June 30, 2011</b> | \$ 48,043,925               | \$ 7,883,241        | \$ 36,081,796          | \$ 92,008,962        |
| Acquisition of investments       | 7,540,840                   | -                   | -                      | 7,540,840            |
| Distributions from investments   | (7,345,773)                 | -                   | -                      | (7,345,773)          |
| Transfers (out) of Level 3       | (86,689)                    | -                   | -                      | (86,689)             |
| Gains (losses), net              |                             |                     |                        |                      |
| Realized                         | 1,598,457                   | -                   | -                      | 1,598,457            |
| Unrealized                       | 1,953,821                   | (254,408)           | 421,466                | 2,120,879            |
| <b>Balances at June 30, 2012</b> | <b>\$ 51,704,581</b>        | <b>\$ 7,628,833</b> | <b>\$ 36,503,262</b>   | <b>\$ 95,836,676</b> |

|                                         | Assets at Fair Value as of June 30, 2011 |                                              |                                       |                       |
|-----------------------------------------|------------------------------------------|----------------------------------------------|---------------------------------------|-----------------------|
|                                         | Level 1                                  | Level 2                                      | Level 3                               | Total                 |
|                                         | Quoted<br>Prices                         | Other<br>Significant<br>Observable<br>Inputs | Significant<br>Unobservable<br>Inputs |                       |
| Cash equivalents                        |                                          |                                              |                                       |                       |
| Money markets                           | \$ 19,933,478                            | \$ -                                         | \$ -                                  | \$ 19,933,478         |
| Total cash equivalents                  | 19,933,478                               | -                                            | -                                     | 19,933,478            |
| Deposits with trustees                  |                                          |                                              |                                       |                       |
| Fixed income                            | -                                        | 37,176,455                                   | -                                     | 37,176,455            |
| Total deposits with trustees            | -                                        | 37,176,455                                   | -                                     | 37,176,455            |
| Investments                             |                                          |                                              |                                       |                       |
| Cash equivalents held for reinvestment  | 2,841,507                                | -                                            | -                                     | 2,841,507             |
| Fixed income                            | -                                        | 1,433,588                                    | -                                     | 1,433,588             |
| Corporate stocks                        | 49,900,110                               | -                                            | -                                     | 49,900,110            |
| Investment funds                        |                                          |                                              |                                       |                       |
| Private equity and other                | -                                        | -                                            | 48,043,925                            | 48,043,925            |
| Equities (registered and nonregistered) | -                                        | 60,584,101                                   | 7,883,241                             | 68,467,342            |
| Bonds (registered)                      | -                                        | 33,718,142                                   | -                                     | 33,718,142            |
| Hedge fund of funds                     | -                                        | 3,606,432                                    | 36,081,796                            | 39,688,228            |
| Multi asset                             | -                                        | 11,334,491                                   | -                                     | 11,334,491            |
| Total investments                       | <b>\$ 52,741,617</b>                     | <b>\$ 110,676,754</b>                        | <b>\$ 92,008,962</b>                  | <b>\$ 255,427,333</b> |

The following table includes a roll forward of the amounts for the year ended June 30, 2011 for financial instruments classified with Level 3:

**Fairfield University**



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\* These funds are in private equity structure, with no ability to be redeemed.

**4. Investments**

Investments at June 30, 2012 and 2011 consisted of the following:

|                                                 | <b>Cost</b>  | <b>Fair Value</b> | <b>Cost</b>  | <b>Fair Value</b> |
|-------------------------------------------------|--------------|-------------------|--------------|-------------------|
| Cash and cash equivalents held for reinvestment | \$ 5,545,470 | \$ 5,545,470      | \$ 2,841,507 | \$ 2,841,507      |
| Corporate bonds                                 | 4,341,809    | 4,439,231         | 1,213,974    | 1,433,588         |
| Corporate stocks                                | 39,328,117   | 49,179,507        | 37,555,612   | 49,900,110        |
| Investment funds                                |              |                   |              |                   |

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**Fairfield University**  
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was JPMorgan Chase which management believed to be creditworthy. On October 27, 2010, the University terminated the swap at a termination cost of \$1,193,000 which included an interest accrual of \$96,170. The loss from the swap termination of \$219,712 is recorded within the 2011 nonoperating activities section in the statement of activities. The University has no other swap agreements.



**Fairfield University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

|                                                                 | Unrestricted          | Temporarily<br>Restricted | Permanently<br>Restricted | Total                         |
|-----------------------------------------------------------------|-----------------------|---------------------------|---------------------------|-------------------------------|
| Donor-restricted and permanently restricted<br>Board designated | \$ -<br>109,736,235   | \$ 27,324,554<br>-        | \$ 119,068,514<br>-       | \$ 146,393,068<br>109,736,235 |
| Total endowment funds                                           | <u>\$ 109,736,235</u> | <u>\$ 27,324,554</u>      | <u>\$ 119,068,514</u>     | <u>\$ 256,129,303</u>         |

Changes in endowment net assets for the fiscal year ended June 30, 2012 consisted of the following:

|                                                      | Unrestricted          | Temporarily<br>Restricted | Permanently<br>Restricted | Total                 |
|------------------------------------------------------|-----------------------|---------------------------|---------------------------|-----------------------|
| <b>Endowment net assets at June 30, 2011</b>         | \$ 118,798,054        | \$ 33,802,722             | \$ 106,146,662            | \$ 258,747,438        |
| Investment return                                    |                       |                           |                           |                       |
| Investment income                                    | 774,555               | 744,180                   | 32,496                    | 1,551,231             |
| Realized and unrealized (losses), net                | <u>(4,162,976)</u>    | <u>(1,729,162)</u>        | <u>(2,030,372)</u>        | <u>(7,922,510)</u>    |
| Total investment (losses)                            | (3,388,421)           | (984,982)                 | (1,997,876)               | (6,371,279)           |
| Contributions                                        | 44,000                | -                         | 14,919,728                | 14,963,728            |
| Appropriation of endowment<br>assets for expenditure | <u>(5,717,398)</u>    | <u>(5,493,186)</u>        | -                         | <u>(11,210,584)</u>   |
| <b>Endowment net assets at June 30, 2012</b>         | <u>\$ 109,736,235</u> | <u>\$ 27,324,554</u>      | <u>\$ 119,068,514</u>     | <u>\$ 256,129,303</u> |

At June 30, 2011, the endowment net asset composition by type of fund consisted of the following:

|                        | Unrestricted          | Temporarily<br>Restricted | Permanently<br>Restricted | Total                 |
|------------------------|-----------------------|---------------------------|---------------------------|-----------------------|
| Donor-restricted funds | \$ -                  | \$ 33,802,722             | \$ 106,146,662            | \$ 139,949,384        |
| Board designated funds | <u>118,798,054</u>    | <u>-</u>                  | <u>-</u>                  | <u>118,798,054</u>    |
| Total endowment funds  | <u>\$ 118,798,054</u> | <u>\$ 33,802,722</u>      | <u>\$ 106,146,662</u>     | <u>\$ 258,747,438</u> |

Changes in endowment net assets for the fiscal year ended June 30, 2011 consisted of the following:

|                                              | Unrestricted   | Temporarily<br>Restricted | Permanently<br>Restricted | Total          |
|----------------------------------------------|----------------|---------------------------|---------------------------|----------------|
| <b>Endowment net assets at June 30, 2010</b> | \$ 107,938,812 | \$ 13,379,327             | \$ 102,077,610            | \$ 223,395,749 |
| Investment return                            |                |                           |                           |                |

**Fairfield University**  
**Notes to Financial Statements**  
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|                                         | <b>2012</b>          | <b>2011</b>          |
|-----------------------------------------|----------------------|----------------------|
| Educational and general services        | \$ 44,196,221        | \$ 51,480,599        |
| Acquisition of buildings and equipment  | <u>2,371,850</u>     | <u>2,964,582</u>     |
| Total temporarily restricted net assets | <u>\$ 46,568,071</u> | <u>\$ 54,445,181</u> |

**10. Net Assets Released From Restrictions**

Net assets released from donor restrictions when expenses were incurred to satisfy the restricted purposes or by occurrence of other events as specified by donors for the years ended June 30, 2012 and 2011 were as follows:

|                                  | <b>2012</b>          | <b>2011</b>          |
|----------------------------------|----------------------|----------------------|
| <b>Purpose of restrictions</b>   |                      |                      |
| Student financial aid            | \$ 5,575,997         | \$ 5,677,241         |
| Educational and general programs | 7,526,847            | 8,152,892            |
| Auxiliary services               | <u>106,157</u>       | <u>98,802</u>        |
| Total operating                  | 13,209,001           | 13,928,935           |
| Capital expenditures             | <u>1,176,558</u>     | <u>746,052</u>       |
|                                  | <u>\$ 14,385,559</u> | <u>\$ 14,674,987</u> |

**Fairfield University**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

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|                                     |                     |
|-------------------------------------|---------------------|
| 2013                                | \$ 1,110,136        |
| 2014                                | 1,129,381           |
| 2015                                | 1,091,831           |
| 2016                                | 879,028             |
| 2017                                | 769,688             |
| Thereafter                          | <u>3,052,876</u>    |
| Total future minimum lease payments | <u>\$ 8,032,940</u> |

**13. Commitments and Contingencies**

At June 30, 2012, the University had a line of credit agreement which allows for borrowings up to \$20,000,000. The agreement expires on January 24, 2013. Interest on any borrowings is at the LIBOR rate plus 1.00%. There is an unused commitment fee of .30% per annum. There are no outstanding borrowings at June 30, 2012.

The University is involved in various legal actions, arising in the normal course of operations. The University is of the opinion that the resolution of these matters will not have a significant effect on the financial condition of the University.